

NATIONAL GALLERY OF ART

FINANCIAL STATEMENTS
for the year ended September 30, 2010
AND
REPORT THEREON

Report of Independent Auditors

To the Board of Trustees of
The National Gallery of Art

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows, present fairly, in all material respects, the financial position of the National Gallery of Art (the Gallery) at September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Gallery's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Gallery's 2009 financial statements and in our report dated November 16, 2009 we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued a report dated November 15, 2010, on our consideration of the Gallery's internal control structure and its compliance with laws and regulations.

PricewaterhouseCoopers LLP

November 15, 2010

**NATIONAL GALLERY OF ART
STATEMENTS OF FINANCIAL POSITION
September 30, 2010 and 2009**

with summarized financial information as of September 30, 2009

(in thousands)

ASSETS

	Private Funds	Federal Funds	Total	
			2010	2009
Cash and cash equivalents	\$ 4,097	\$ 78,155	\$ 82,252	\$ 49,286
Accounts receivable, net	629	-	629	1,376
Pledges receivable, net	10,979	-	10,979	17,118
Investments	630,488	-	630,488	584,010
Trusts held by others	12,665	-	12,665	11,207
Publications inventory, net	1,214	-	1,214	1,282
Deferred charges and other assets	3,528	23	3,551	4,565
Fixed assets, net	60,932	137,675	198,607	195,343
Art collections	-	-	-	-
Total assets	\$ 724,532	\$ 215,853	\$ 940,385	\$ 864,187

LIABILITIES AND NET ASSETS

Liabilities:				
Accounts payable and accrued expenses	\$ 11,005	\$ 34,556	\$ 45,561	\$ 40,630
Capital lease obligation	-	1,532	1,532	1,716
Contractual obligations	15,800	-	15,800	33,688
Asset retirement obligation	-	19,612	19,612	19,746
Total liabilities	26,805	55,700	82,505	95,780
Net Assets:				
Unrestricted				
Investments in fixed assets, net of accumulated depreciation and amortization	60,932	136,143	197,075	193,627
Future funded expenses recognized	-	(32,895)	(32,895)	(31,837)
Total undesignated	60,932	103,248	164,180	161,790
Designated for collections and art purchases	26,021	-	26,021	9,781
Designated for special exhibitions	11,322	-	11,322	10,218
Designated for capital projects	16,050	-	16,050	15,123
Designated for education and public programs	12,437	-	12,437	7,414
Designated for other operating purposes	65,042	-	65,042	50,431
Designated for publications, including systematic catalogues	15,354	-	15,354	16,893
Total designated	146,226	-	146,226	109,860
Total unrestricted	207,158	103,248	310,406	271,650
Temporarily restricted	120,172	56,905	177,077	131,409
Permanently restricted	370,397	-	370,397	365,348
Total net assets	697,727	160,153	857,880	768,407
Total liabilities and net assets	\$ 724,532	\$ 215,853	\$ 940,385	\$ 864,187

The accompanying notes are an integral part of these financial statements

**NATIONAL GALLERY OF ART
STATEMENTS OF ACTIVITIES**
for the years ended September 30, 2010 and 2009
with summarized financial information for the year ended September 30, 2009
(in thousands)

	Private Funds	Unrestricted Federal Funds	Total	Temporarily Restricted	Permanently Restricted	Total
OPERATING						
Support and revenue:						
U.S. Government appropriation	\$ -	\$ 103,966	\$ 103,966	\$ 3,386	-	\$ 107,352
Gifts and grants	7,765	-	7,765	7,666	-	15,431
Gallery shop sales, net	7,072	-	7,072	-	-	7,072
Investment return designated for operations	11,588	-	11,588	10,567	-	22,155
Royalties and other income	1,523	-	1,523	-	-	1,523
	27,948	103,966	131,914	21,619	-	153,533
	15,619	3,427	19,046	(19,046)	-	-
	43,567	107,393	150,960	2,573	-	153,533
Net assets released from restrictions to fund operating expenses						
Total support and revenue						
Operating expenses:						
Program services:						
Collections	5,302	38,582	43,884	-	-	43,884
Special exhibitions	3,543	16,283	19,826	-	-	19,826
Education, gallery shops and public programs	15,727	29,473	45,200	-	-	45,200
Editorial and photography	2,379	3,422	5,801	-	-	5,801
Total program services	26,951	87,760	114,711	-	-	114,711
Supporting services:						
General and administrative	6,193	26,642	32,835	-	-	32,835
Development	3,129	1,732	4,861	-	-	4,861
Total supporting services	9,322	28,374	37,696	-	-	37,696
Total expenses	36,273	116,134	152,407	-	-	152,407
Increase (decrease) in net assets from operating activities	7,294	(8,741)	(1,447)	2,573	-	1,126
NON-OPERATING						
U.S. Government appropriation	-	-	-	56,259	-	56,259
Non-operating gifts and grants	-	-	-	5,222	4,501	9,723
Provision for bad debts	-	-	-	(500)	-	(2)
Other income	-	-	-	-	-	163
Changes in value of trusts held by others	(835)	-	(835)	14	548	(273)
Investment return in excess of amount designated for operations	18,507	-	18,507	18,508	-	37,015
Reclassifications of net asset balances	(321)	-	(321)	321	-	-
Net assets released from restrictions to fund non-operating expenses	22,369	14,360	36,729	(36,729)	-	-
Change in net assets from non-operating activities before acquisitions of works of art	39,720	14,360	54,080	43,095	5,049	102,224
Acquisitions of works of art	(13,877)	-	(13,877)	-	-	(13,877)
Increase (decrease) in net assets	33,137	5,619	38,756	45,668	5,049	89,473
Net assets at beginning of the year	174,021	97,629	271,650	131,409	365,348	768,407
Net assets at end of the year	\$ 207,158	\$ 103,248	\$ 310,406	\$ 177,077	\$ 370,397	\$ 768,407

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
STATEMENTS OF CASH FLOWS
for the year ended September 30, 2010
with summarized financial information as of September 30, 2009
(in thousands)

			Totals	
	Private Funds	Federal Funds	2010	2009
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 41,996	\$ 47,477	\$ 89,473	\$ (14,892)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,473	6,682	10,155	9,663
Amortization of discount on pledges receivable	(390)	-	(390)	(544)
Amortization of discount on contractual obligations	725	-	725	1,092
Provision for bad debts	500	-	500	2
Contributions and net investment income for permanently restricted investments	(6,292)	-	(6,292)	(3,767)
U.S. Government appropriations for renovation projects	-	(56,259)	(56,259)	(17,368)
Gifts and grants for art acquisitions and capital projects	(8,636)	-	(8,636)	(18,399)
Acquisitions of works of art	33,627	-	33,627	32,238
Realized (gains) losses on sale of investments	(21,863)	-	(21,863)	22,712
Unrealized gains on investments	(34,106)	-	(34,106)	(28,425)
(Increase) decrease in value of trusts held by others	(1,458)	-	(1,458)	232
Decrease in accounts receivable, net	747	-	747	1,108
Decrease in pledges receivable, net	6,029	-	6,029	5,166
Decrease in publications inventory, net	68	-	68	390
Decrease (increase) in deferred charges and other assets	387	(23)	364	(3,311)
(Decrease) increase in accounts payable and accrued expenses	(78)	4,688	4,610	(941)
(Decrease) increase in contractual obligations	(200)	-	(200)	10,000
Increase in asset retirement obligation	-	847	847	882
Asset retirement remediation payment	-	(981)	(981)	(286)
Net cash provided by (used in) operating activities	14,529	2,431	16,960	(4,448)
Cash flows from investing activities:				
Purchase of investments	(59,880)	-	(59,880)	(82,469)
Proceeds from sale of investments	69,371	-	69,371	113,815
Acquisitions of works of art	(33,627)	-	(33,627)	(32,238)
Purchase of fixed assets	(244)	(12,854)	(13,098)	(14,064)
Collection of notes receivable	650	-	650	-
Net cash used in investing activities	(23,730)	(12,854)	(36,584)	(14,956)
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	6,292	-	6,292	3,767
U.S. Government appropriation for renovation projects	-	56,259	56,259	17,368
Gifts and grants for art acquisitions and capital projects	8,636	-	8,636	18,399
Principal payment on capital lease obligation	-	(184)	(184)	(168)
Payments on contractual obligations	(18,413)	-	(18,413)	(9,213)
Net cash (used in) provided by financing activities	(3,485)	56,075	52,590	30,153
Net (decrease) increase in cash and cash equivalents	(12,686)	45,652	32,966	10,749
Cash and cash equivalents, at beginning of year	16,783	32,503	49,286	38,537
Cash and cash equivalents, at end of year	\$ 4,097	\$ 78,155	\$ 82,252	\$ 49,286
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest on capital lease	\$ -	\$ 157	\$ 157	\$ 172
Income taxes	\$ -	\$ -	\$ -	\$ 30
Supplemental disclosure of non-cash information:				
Donated investment securities	\$ 1,350	\$ -	\$ 1,350	\$ 1,394
Donated building	\$ -	\$ -	\$ -	\$ 3,300
Fixed asset additions included in accounts payable	\$ -	\$ 1,568	\$ 1,568	\$ 1,247

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

1. Organization

The National Gallery of Art (the Gallery) was created in 1937 for the people of the United States of America by a joint resolution of Congress, accepting the gift of financier and art collector Andrew W. Mellon.

The Gallery serves the United States in a national role by preserving, collecting, exhibiting, and encouraging the understanding by the American public of original, great works of art. This mission and standard of excellence is central to every activity of the Gallery, from caring for and strengthening the collection to presenting special exhibition and organizing public programs.

A substantial portion of the Gallery's operations is funded from annual federal appropriations. Since its founding, federal funds ensure the operation and maintenance and the protection and care of the nation's art collection enabling the Gallery to remain open 363 days a year at no charge to visitors. The Gallery also receives federal appropriations for the repair and restoration of its facilities.

In addition to federal appropriations, the Gallery receives private donations and earns income from investments. Private donations from individuals, foundations and corporations have provided support for art acquisitions and conservation, scholarly and scientific research, exhibitions, and education outreach programs.

2. Summary of significant accounting policies

(a) General

The Gallery receives annual appropriations to cover its core programs and renovation of its buildings as part of the budget approved annually by Congress and signed by the President. This is supplemented with income from endowments designated for current operating expenditures as well as gifts and grants designated by the donors for other specific expenditures. (All monies, related activities and balances from federal sources are referred to herein as "federal", while all other monies, related activities and balances are referred to herein as "private".) All identified inter-fund transactions have been eliminated from the financial statements.

(b) Measure of operations

The Gallery includes in its measure of operations all federal and private support and revenue and expenses that are integral to its core program services: collections; special exhibitions; education, Gallery shops and public programs; and editorial and photography. The measure of operations excludes certain non-operating activities such as non-operating gifts and grants, investment return in excess of amounts designated for operations and acquisitions of works of art.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The Gallery's Board of Trustees designates only a portion of the Gallery's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and offset potential market declines. The amount designated (a portion of which is computed under the spending policy) and all interest income earned by investing cash in excess of daily requirements are used to support current operations (see Note 6).

(c) Summarized financial information

The financial statements include certain summarized prior-year information in total only, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Gallery's financial statements for the year ended September 30, 2009 from which the summarized information was derived.

(d) Net assets

The Gallery's net assets, support and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Gallery are classified and reported as follows:

- *Unrestricted* net assets include "one-year" federal appropriations and all other resources, which are not subject to donor-imposed stipulations. One-year federal appropriations which are not obligated or expended are retained by the Gallery in accordance with federal guidelines. At the discretion of the Gallery's Board of Trustees, private funds which are not expended for operating activities may be set aside in designated reserves and earmarked to cover future program costs or other contingencies.

The Gallery has recognized for GAAP reporting purposes liabilities for federal employee benefits and the asset retirement obligation. These future funded expenses are funded by U.S. government appropriations only when the expense is incurred at a date still to be determined in the future.

- *Temporarily restricted* net assets carry specific donor-imposed stipulations on the expenditure or other use of the contributed funds. In addition, the Gallery's "no-year" federal appropriations for special exhibitions, emergency response, and for the repair, renovation and restoration of its buildings are classified as temporarily restricted net assets.

Temporary restrictions may expire by the passage of time or as a result of fulfillment of the donor's stipulations. For gifts restricted

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

for capital additions, net assets are released when capital expenditures are incurred.

- *Permanently restricted* net assets have donor-imposed stipulations that require that the corpus of the gifts be retained permanently. In some cases, the donor has also permanently restricted the use of excess income and any realized or unrealized gains attributable to the corpus.

(e) Cash and cash equivalents

Cash and cash equivalents include interest-bearing demand deposits and appropriated amounts remaining on deposit with the U.S. Treasury. The Gallery considers all highly liquid investments with an original maturity of three months at the date of purchase or less to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see Notes 3 and 6).

(f) Pledges receivable

Unconditional promises to contribute to the Gallery in the future (pledges receivable) are recorded at the fair value of future cash flows, after providing an allowance for uncollectibility. For unconditional promises to give recognized prior to October 1, 2008, a risk-free rate of return at the date of the gift was used. For unconditional promises to give recognized on or after October 1, 2008, a discount rate approximating the market rates for unsecured borrowing as required by a newly adopted accounting standard related to fair value determination is used (see Note 19). Conditional promises to give are recognized as income when the conditions stipulated by the donor are substantially met.

(g) Investments

Investments are generally reported at fair value. Common and preferred stocks and mutual funds are valued using readily determinable market prices. Alternative investments are reported at the estimated fair value as provided by the investment managers. The Gallery reviews and evaluates valuation methods and assumptions the investment managers use in determining the fair value. For investments valued based on manager reported net asset values, the Gallery applies procedures to assess the valuation including comparing performance to relevant market indices and verifying the underlying asset values to quoted market prices. Due to the uncertainty of valuation of these alternative investments, their values may differ from values that would have been used had a ready market for the investments existed.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average historical value (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded when earned on an accrual basis. In accordance with the policy

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities (see Notes 6 and 19).

(h) Trusts held by others

The Gallery has been named as beneficiary in several irrevocable charitable trusts held by third parties. The Gallery's share of these trusts is recorded at current fair value. Income distributions from these trusts are recorded as investment income and changes in the value of these trusts are recorded as "changes in the value of trusts held by others" in the statement of activities.

(i) Publications inventory

Publications inventory is carried at the lower of cost or market. Cost is determined using the average cost method.

(j) Deferred charges and other assets

The Gallery defers recognition of private expenses incurred in connection with future special exhibitions and other activities until the period in which the exhibition or activity occurs. Other assets largely represent a private asset contribution to the Gallery which is recorded at fair value at the date of the gift.

(k) Fixed assets

The land occupied by the Gallery's buildings was appropriated and reserved by the Congress of the United States for that purpose. No value has been assigned in the accompanying financial statements. Buildings are recorded at cost and depreciated on a straight-line basis over the estimated useful life of fifty years. Building improvements, equipment, furniture and computer software are also recorded at cost and depreciated on a straight-line basis over the estimated useful lives ranging from five to twenty-five years. Upon retirement of fixed assets, the related cost and accumulated depreciation are removed from the accounts (see Note 9).

(l) Art collections

The Gallery's art collections focus upon European and American paintings, sculpture and works on paper. In conformity with accounting policies generally followed by art museums, the value of art has been excluded from the statement of financial position.

The Gallery's collections are maintained for public exhibition, education and research in furtherance of public service, rather than for financial gain.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The Gallery acquires its art collections through purchase or by donation-in-kind. Only current year purchases made from specifically designated funds, not donations-in-kind, are reflected in the statement of activities. The Gallery does not deaccession any of its permanent collections.

(m) Accrued leave

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability as of the date of the financial statements is recognized for earned but unused annual leave by federal employees since this annual leave will be paid from future federal appropriations when the leave is used by employees. The amount accrued is based upon current pay of the employees.

(n) Employee benefits

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 5 (SFFAS No. 5), *"Accounting for Liabilities of the Federal Government"*, which requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. The pension expense recognized in the Gallery's financial statements is equal to the current service cost for the Gallery's employees for the accounting period less the amount contributed by the employees. The measurement of the pension service cost requires the use of an actuarial cost method and assumptions with factors applied by the Gallery. These factors are supplied by the Office of Personnel Management (OPM), the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the Gallery represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing by the Gallery.

All permanent employees of the Gallery, both federal and non-federal, hired subsequent to January 1, 1984 participate in both the Social Security Retirement System and the Federal Employees' Retirement System (FERS). Employees hired prior to January 1, 1984 had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. All employees have the option to make tax-deferred contributions to a Thrift Savings Plan and, in some instances, receive a matching portion from the Gallery. The Gallery funds all retirement contributions on a current basis, and accordingly there are no unfunded retirement costs (see Note 16).

SFFAS No. 5 also requires that the Gallery recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Gallery accounts for this expense in its financial statements in a manner similar to that used for pension expense, with the exception that employees and the Gallery do not make current contributions to fund these future benefits.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

(o) Imputed financing sources

In certain cases, the operating costs of the Gallery are paid out of funds appropriated to other Federal agencies. As an example, the law requires certain costs of retirement programs to be paid by OPM and certain legal judgments against the Gallery to be paid from the Judgment Fund maintained by Treasury. Costs that are identifiable to the Gallery and directly attributable to the Gallery's operations are paid by these Federal agencies.

(p) Fair value measurements

In September 2006 the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 820, "*Fair Value Measurements and Disclosures*" (ASC Topic 820) which defines fair value, provides a framework for measuring fair value, and expands disclosures about fair value measurements. Subsequent to this issuance additional related guidance has been released which clarifies the application.

On October 1, 2008 the Gallery adopted the provisions of ASC Topic 820 for fair value measurements and disclosures of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also established a framework for measuring fair value and expands disclosures about fair value measurements (see Note 19).

(q) Contributed services and donated assets

The Gallery has volunteers who provide assistance in various departments. Such contributed services do not meet the criteria for recognition of contributed services contained in ASC Topic 958, "*Not-for-Profit Entities*", and accordingly, are not reflected in the accompanying financial statements.

Donated assets, which do not become part of the Gallery's art collections, are recorded at their fair value at the date of the gift. The Gallery does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

(r) Functional allocation of expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Certain costs including depreciation, utilities, building maintenance, security and other operating costs have been allocated among program and supporting services.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

Included under the Collections category are the costs of the care and display of the Gallery's collections. Special exhibition expenses include travel, transportation of items, and other services necessary for the display of special exhibitions. Education, Gallery shops and public programs includes the cost of providing a wide array of lectures, tours, films, music, symposia and academic programs to the general public, in addition to Gallery shops cost of goods sold and expenses. Editorial and photography expenses include the costs to produce the many publications produced by the Gallery. General and administrative expenses include costs for executive management, financial administration, information systems, human resources and legal services. Development expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts.

(s) Estimates

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from these estimates.

(t) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

(u) Recently Issued Accounting Pronouncements

In April 2009, FASB issued ASC Topics 820-10-35, 50 and 55 (formerly FAS 157-4), "*Determining Fair Value When the Volume and Level of Activity of an Asset or Liability Have Significantly Decreased*". This provides additional guidance on estimating the fair value of an asset where the level of activity has decreased significantly, and affirms that the objective fair value is the price that would be received to sell the asset in an orderly transaction, even when the market for the asset is not active. The Gallery adopted ASC Topics 820-10-35, 50 and 55 effective October 1, 2009.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, "*Investment in Certain Entities That Calculate Net Asset Value per Share*" (ASU 2009-12). ASU 2009-12 (formerly FAS 157-g) amends FASB Statement No. 157, Fair Value Measurements, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The Gallery adopted ASU 2009-12 effective October 1, 2009.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements". This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Level 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective January, 2010. In addition, the guidance requires the separate presentation of purchases and sales in the Level 3 Asset reconciliation: this is effective for reporting periods beginning after December 15, 2010. The adoption of their guidance is not expected to have a material impact on the Gallery's financial statements.

3. Cash and cash equivalents

As of September 30, 2010 and 2009, cash and cash equivalents include federal cash of \$78,155 and \$32,503, respectively, on deposit with the U.S. Treasury representing appropriated amounts yet to be disbursed. There are no reconciling items between the amounts recorded by the Gallery and on deposit with the U.S. Treasury.

The Gallery places its cash in a financial institution that is federally insured for \$250 under the Federal Depository Insurance Corporation Act. At September 30, 2010 the aggregate balances were in excess of the insurance and therefore bear some risk since they are not collateralized.

4. Accounts receivable, net

As of September 30, 2010 and 2009, accounts receivable consisted of the following:

	2010	2009
Accrued investment income	\$ 389	\$ 556
Special exhibition and other program receivables	235	816
Other	54	53
Subtotal	678	1,425
Less: allowances	(49)	(49)
Total	<u>\$ 629</u>	<u>\$ 1,376</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

5. Pledges receivable, net

As of September 30, 2010 and 2009, pledges receivable consisted of the following:

	2010	2009
Due in one year or less	\$ 7,643	\$ 12,390
Due between one year and five years	4,032	7,375
Due in more than five years	200	302
Subtotal	11,875	20,067
Less: discounts of \$446 and \$799 and allowances of \$450 and \$2,150 respectively	(896)	(2,949)
Total	\$ 10,979	\$ 17,118

As of September 30, 2010 and 2009, \$768 and \$1,724 of the pledge receivable balance was receivable from related parties. The Gallery has received conditional promises to give of \$1,758 and \$5,414 as of September 30, 2010 and 2009, respectively.

6. Investments

As of September 30, 2010 and 2009, the fair value of investments consisted of the following:

	2010	2009
Loan to the U.S. Treasury	\$ 5,000	\$ 5,000
Common and preferred stocks	78,480	69,255
Mutual funds	147,330	136,784
Alternative investments	399,678	372,971
Total	\$ 630,488	\$ 584,010

In 1942, the Gallery, under authority of an Act of Congress, made a \$5,000 permanent loan to the U.S. Treasury. This loan bears interest at 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (ranging from 4.0% to 4.13% during fiscal year 2010). Interest income on this loan was \$204 and \$206 for the fiscal years ended September 30, 2010 and 2009, respectively.

Investments in common and preferred stocks and mutual funds, limited partnerships and limited liability companies consist of the Gallery's ownership interest in externally managed investment funds, which invest in market-traded equity and fixed income securities.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

Alternative investments also includes the Gallery's ownership interest in externally managed private equity, venture capital, multi-asset class, and hedge funds which are organized as limited partnerships.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September, 30 2010 and 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Dividends and interest (net of expenses of \$3,127 and \$3,334, respectively)	\$ 847	\$ 2,358	\$ -	\$ 3,205	\$ 5,084
Net investment appreciation	29,248	26,717	-	55,965	5,713
	30,095	29,075		59,170	10,797
Appropriated for operations	(11,588)	(10,567)	-	(22,155)	(16,963)
Investment return in excess of amount designated for operations	\$ 18,507	\$ 18,508	\$ -	\$ 37,015	\$ (6,166)

7. Publications inventory, net

As of September 30, 2010 and 2009, net publications inventory consisted of the following:

	2010	2009
Retail	\$ 1,229	\$ 1,158
Work-in-process	141	266
Consignment	228	248
Subtotal	1,598	1,672
Less: allowance for obsolescence	(384)	(390)
Total	\$ 1,214	\$ 1,282

8. Other assets

During fiscal 2009, the Gallery received real and personal property with an estimated fair value of \$3,300 at the date of donation. The Gallery has adjusted the fair value of the property in accordance with ASC Topic 360 "*Property, Plant and Equipment*" to recognize the estimated costs to sell.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

9. Fixed assets, net

As of September 30, 2010 and 2009, net fixed assets consisted of the following:

	2010			2009
	Private Funds	Federal Funds	Total	Total
Buildings and improvements	\$ 156,310	\$ 145,189	\$ 301,499	\$ 300,474
Equipment	4,609	51,693	56,302	53,883
Construction-in-progress	909	16,248	17,157	7,181
Equipment under capital lease	-	2,962	2,962	2,962
Subtotal	161,828	216,092	377,920	364,500
Less: accumulated depreciation and amortization	(100,896)	(78,417)	(179,313)	(169,157)
Total	<u>\$ 60,932</u>	<u>\$ 137,675</u>	<u>\$ 198,607</u>	<u>\$ 195,343</u>

Depreciation and amortization expense was \$10,155 and \$9,663 for the years ended September 30, 2010 and 2009, respectively.

10. Accounts payable and accrued expenses

As of September 30, 2010 and 2009, accounts payable and accrued expenses consisted of the following:

	2010			2009
	Private Funds	Federal Funds	Total	Total
Accounts payable and accrued expenses	\$ 1,027	\$ 3,223	\$ 4,250	\$ 4,005
Employee benefits	6,139	17,081	23,220	21,186
Other accrued liabilities	3,839	2,626	6,465	6,813
Due to federal government	-	11,626	11,626	8,626
Total	<u>\$ 11,005</u>	<u>\$ 34,556</u>	<u>\$ 45,561</u>	<u>\$ 40,630</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

11. Contractual obligations

The Gallery has entered into a number of contractual obligations with various parties for the acquisition of art for its collection. These contractual obligations are unsecured, non-interest bearing and require annual payments.

As of September 30, 2010 and 2009, contractual obligations consisted of the following:

	2010	2009
Contractual obligations	\$ 16,275	\$ 34,888
Less: discounts on contractual obligations	(475)	(1,200)
Total	<u>\$ 15,800</u>	<u>\$ 33,688</u>

Annual payments due during the next two years on contractual obligations are as follows:

	Annual Payments
2011	\$ 8,325
2012	<u>7,950</u>
Total	<u>\$ 16,275</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

12. U.S. Government appropriations

The Gallery's U.S. Government appropriation revenue recognized in fiscal year 2010 is reconciled to the U.S. Government appropriations received as follows:

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
U.S. Government appropriation revenue recognized	\$ 107,352	\$ 56,259	\$ 163,611
Unexpended obligations	8,924	-	8,924
Amounts expended from prior year's appropriations	<u>(5,530)</u>	<u>-</u>	<u>(5,530)</u>
Total U.S. Government appropriations	<u>\$ 110,746</u>	<u>\$ 56,259</u>	<u>\$ 167,005</u>

The Gallery's U.S. Government appropriation in fiscal year 2010 is reconciled to the federal expenses for fiscal year 2010 as follows:

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Total U.S. Government appropriations	\$ 110,746	\$ 56,259	\$ 167,005
Appropriations not expended in prior years	<u>-</u>	<u>16,089</u>	<u>16,089</u>
Appropriations available	110,746	72,348	183,094
Less appropriations			
Unexpended	(8,924)	(57,748)	(66,672)
Accrued liabilities	52	(1,473)	(1,421)
Capitalized for GAAP purposes	<u>(724)</u>	<u>(10,150)</u>	<u>(10,874)</u>
Appropriations expensed	101,150	2,977	104,127
Add expenses recognized for GAAP purposes			
Depreciation and amortization	3,117	3,565	6,682
Expenses not funded by appropriations	980	607	1,587
Amounts expended from prior year's appropriations	<u>3,247</u>	<u>491</u>	<u>3,738</u>
Total federal expenses	<u>\$ 108,494</u>	<u>\$ 7,640</u>	<u>\$ 116,134</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

13. Net assets released from restrictions

Net assets are released from donor restrictions when the expenses are incurred to satisfy the restricted purposes as specified by donors. The donor-specified restrictions that were met in the reporting period are as follows:

	2010		2009	
	Operating	Non-operating	Operating	Non-operating
Acquisition of art	\$ -	\$ 21,852	\$ -	\$ 20,502
Collections	2,075	-	1,816	-
Special exhibitions	2,361	-	5,263	-
Education and public programs	4,585	-	4,098	-
Editorial and photography	203	-	549	-
Capital projects	-	517	-	100
Operations	6,395	-	6,579	-
Subtotal private funds	15,619	22,369	18,305	20,602
Special exhibitions	3,427	-	3,388	-
Capital projects	-	14,360	-	13,993
Subtotal federal funds	3,427	14,360	3,388	13,993
Total	\$ 19,046	\$ 36,729	\$ 21,693	\$ 34,595

14. Analysis of restricted net assets

As of September 30, 2010 and 2009, temporarily restricted net assets and the investment income from permanently restricted net assets are restricted to support the following purposes:

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Acquisition of art	\$ 26,953	\$ 72,396	\$ 34,026	\$ 69,841
Collections	7,203	34,880	4,526	34,130
Special exhibitions	10,865	31,386	7,249	31,142
Education and public programs	35,498	83,644	33,139	83,644
Editorial and photography	268	3,498	317	3,498
Capital projects	-	-	577	-
Operations	39,385	144,593	36,528	143,093
Subtotal private funds	120,172	370,397	116,362	365,348
Special exhibitions and renovation funds	56,905	-	15,047	-
Subtotal federal funds	56,905	-	15,047	-
Total	\$ 177,077	\$ 370,397	\$ 131,409	\$ 365,348

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

15. Endowments

The Gallery's endowment consists of 66 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Gallery has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 2008 of the District of Columbia, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Gallery classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Gallery in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Gallery considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Gallery and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Gallery
- The investment policies of the Gallery

Endowment net assets were comprised of the following as of September 30, 2010 and 2009:

	2010		2009	
	Donor-restricted endowment funds	Board-designated endowment funds	Donor-restricted endowment funds	Board-designated endowment funds
Unrestricted	\$ (31,494)	\$ 16,527	\$ (42,882)	\$ 12,706
Temporarily restricted	41,870	-	29,756	-
Permanently restricted	370,397	-	365,348	-
Total funds	<u>\$ 380,773</u>	<u>\$ 16,527</u>	<u>\$ 352,222</u>	<u>\$ 12,706</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The following table summarizes the change in the endowment funds during the years ended September 30, 2010 and 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Endowment net assets as of October 1	\$ (30,176)	\$ 29,756	\$ 365,348	\$ 364,928	\$ 368,886
Investment return:					
Investment income	52	2,118	-	2,170	3,310
Net appreciation (depreciation)	12,641	21,929	548	35,118	3,232
Total investment return	12,693	24,047	548	37,288	6,542
Contributions	5,281	192	4,501	9,974	792
Re-instatement of endowment through liquidation of an asset	-	-	-	-	1,944
Appropriation of endowment assets for expenditures	(2,765)	(12,332)	-	(15,097)	(13,443)
Reclassifications	-	207	-	207	207
Endowment net assets as of September 30	<u>\$ (14,967)</u>	<u>\$ 41,870</u>	<u>\$ 370,397</u>	<u>\$ 397,300</u>	<u>\$ 364,928</u>

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Gallery to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$31,494 and \$42,882 as of September 30, 2010 and 2009, respectively. These deficiencies were the result of unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Gallery. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(b) Return Objectives and Risk Parameters

The Gallery has adopted investment and spending policies for endowment assets that provide for the continued financial stability of the Gallery and a revenue stream for funding the Gallery's mission. Endowment assets include those assets of donor restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that ensures safety through diversification while obtaining a competitive rate of return. The Gallery expects its endowment funds over time to provide an average rate of return of approximately 5.0% annually. Actual returns in any year may vary from this amount.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, the Gallery relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Gallery targets diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Gallery's spending policy is based on an annual endowment spending rate of 5% of the average fair value of endowment investments at the end of the previous three-and-one quarter years. This spending rate constitutes the Board's annual appropriation for spending endowment earnings to support the purchase of art and for the support of operations. This spending assumption is intended to allow for the spending of the income of the portfolio, provide a target rate of return for the fund, and provide a sustainable spending level that will allow for support of the Gallery's initiatives in the accomplishment of its mission, while maintaining the purchasing power of the endowment fund's assets.

16. Employee benefits

Total pension expense recognized in the Gallery's financial statements was \$7,035 and \$6,727 for the years ended September 30, 2010 and 2009, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$3,153 and \$1,810 respectively. To the extent that Gallery employees are covered by the thrift savings component of FERS, the Gallery's payments to the plan are recorded as operating expenses. The Gallery's costs associated with the thrift savings component of FERS for the years ended September 30, 2010 and 2009, were \$2,214 and \$2,085, respectively.

In addition, the Gallery makes matching contributions for all employees who are eligible for current health and life insurance benefits. The Gallery's contributions for active employees are recognized as operating expenses. During fiscal years 2010 and 2009, the Gallery contributed \$5,159 and \$4,821, respectively. Using the cost factors supplied by OPM, the Gallery has not recognized as an expense in its financial statements the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$6,071 and \$5,952 during fiscal years 2010 and 2009 respectively, and are financed by OPM and imputed to the Gallery.

The Gallery has a commitment to certain key employees whereby the Gallery will pay those employees a specified amount at a future point in time. The cost of these benefits is accrued over the key employees' future years of service to the Gallery. The cost of these benefits for fiscal years 2010 and 2009 total \$387 and \$420, respectively, and is recognized as an expense in the statement of activities and as a liability included in accounts payable and accrued expenses in the accompanying statement of financial position.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

17. Income taxes

The Gallery is a nonprofit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

On October 1, 2008, the Gallery adopted the provisions of ASC Topic 740-10-25, “*Income Taxes Recognition*” (ASC Topic 740-10-25). ASC Topic 740-10-25 requires that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of ASC Topic 740-10-25 had no impact on the Gallery’s financial statements. The Gallery does not believe its financial statements include any uncertain tax positions.

18. Lease commitments

During fiscal year 2002, the Gallery entered into a capital lease obligation in connection with the installation of equipment. The Gallery has also entered into several operating leases for warehouse and office space, which continue through January 31, 2018. The terms of these operating leases include additional rent for operating expenses, real estate taxes, utilities and maintenance. Future minimum lease payments under these leases for the fiscal years ended September 30 are as follows:

	2010	
	Capital Lease	Operating Leases
2011	\$ 342	\$ 3,677
2012	342	3,763
2013	343	1,767
2014	343	889
2015	344	911
Thereafter	345	3,112
Total minimum lease payments	2,059	\$ 14,119
Less: amount representing interest	(527)	
Present value of minimum capital lease payments	\$ 1,532	

Rental expense was approximately \$4,800 and \$4,830 for the years ended September 30, 2010 and 2009, respectively.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

19. Fair Value Measurements

Statement of Financial Accounting Standard (SFAS) ASC 820 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Gallery has the ability to access as of the reporting date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement as of the reporting date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation.

As of September 30, 2010 and 2009, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, loan to the U.S Treasury, accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The following tables summarize the fair value measurement as of September 30, 2010 and 2009 for financial assets by pricing observability levels:

	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at 9/30/10
Common and preferred stocks	\$ 78,480	\$ -	\$ -	\$ 78,480
Mutual funds – equity	43,765	-	-	43,765
Mutual funds – fixed income	103,565	-	-	103,565
Public equity funds	-	204,440	-	204,440
Hedge funds	-	-	112,690	112,690
Multi-asset class fund	-	-	42,587	42,587
Private equity funds	-	-	29,148	29,148
Venture capital funds	-	-	10,813	10,813
Trust held by others	-	-	10,119	10,119
Assets measured at fair value on a recurring basis	<u>225,810</u>	<u>204,440</u>	<u>205,357</u>	<u>635,607</u>
Trust held by others	-	-	2,546	2,546
Assets measured at fair value on a non-recurring basis	-	-	2,546	2,546
Total assets measured at fair value	<u>\$ 225,810</u>	<u>\$ 204,440</u>	<u>\$ 207,903</u>	<u>\$ 638,153</u>

	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at 9/30/09
Common and preferred stocks	\$ 69,255	\$ -	\$ -	\$ 69,255
Mutual funds – equity	40,275	-	-	40,275
Mutual funds – fixed income	96,509	-	-	96,509
Public equity funds	-	192,997	-	192,997
Hedge funds	-	-	108,934	108,934
Multi-asset class fund	-	-	40,468	40,468
Private equity funds	-	-	22,027	22,027
Venture capital funds	-	-	8,545	8,545
Trust held by others	-	-	8,661	8,661
Assets measured at fair value on a recurring basis	<u>206,039</u>	<u>192,997</u>	<u>188,635</u>	<u>587,671</u>
Trust held by others	-	-	2,546	2,546
Assets measured at fair value on a non-recurring basis	-	-	2,546	2,546
Total assets measured at fair value	<u>\$ 206,039</u>	<u>\$ 192,997</u>	<u>\$ 191,181</u>	<u>\$ 590,217</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The 2009 presentation of the fair value hierarchy table has been reclassified to conform to the 2010 presentation for investments which the Gallery has the ability to redeem at NAV up to 120 days beyond the measurement date. Public equity funds of \$192,997 were reclassified from Level 3 to Level 2 as a result.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds underlying holdings, which may be marketable. Because the net asset value reported for each fund is used as a practical expedient to estimate the fair value of the Gallery's interest therein, its classification in Level 2 or 3 is based on the Gallery's ability to redeem its interest at or near the date of the statement of financial position. If the investment can be redeemed in less than 120 days the investment is classified in Level 2. The classification in the fair value is not necessarily an indication of the risks, liquidity or degree of difficulty in estimating the fair value of each of the investments underlying assets and liabilities.

In general for Level 3 investments, the Gallery utilizes the investment manager of the asset to provide a valuation estimate based on previously disclosed techniques and processes which have been reviewed for propriety and consistency with consideration given to asset type and investment strategy. Management makes best estimates based on information available. The following estimates and assumptions were used to determine the fair value of each class of financial instruments listed above:

Fair value measured on a recurring basis

Alternative Investments - Investments include but are not limited to separately held accounts in hedge funds and limited partnership holdings. These assets which are grouped by investment objective consist of both publicly traded and privately-held securities, diversified globally. In the case of the private equity and venture capital investments there are limited options to transfer or withdraw from these funds prior to their termination. The portfolio holdings of underlying funds in partnerships may not be disclosed; therefore, the Gallery relies on the investment manager to provide a valuation estimate. Inputs to the valuation are unobservable and therefore included in Level 3.

Trusts Held by Others – Assets managed under trust agreements from donors where the Gallery is the beneficiary of the income are categorized as Level 3. These trusts are managed by external parties and are for the most part invested in cash equivalents, mutual funds, and publicly traded equities.

Fair value measured on a non-recurring basis

Trusts Held by Others – One trust is invested in real property based on property valuations that involve significant judgment and estimation.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2010:

	Year ended September 30, 2010				
	Hedge Funds	Multi -Asset Class	Private Equity Funds	Venture Capital Funds	Trust Held by Others
Fair value of Level 3 assets at September 30, 2009	\$ 108,934	\$ 40,468	\$ 22,027	\$ 8,545	\$ 8,661
Realized gains (losses)	1,201	(561)	482	(9)	-
Net unrealized gains	5,655	4,799	2,223	689	1,458
Proceeds from sales, redemptions and distributions	(3,100)	(2,119)	(1,153)	(401)	-
Purchase of investments	-	-	5,569	1,989	-
Fair value of Level 3 assets at September 30, 2010	<u>\$ 112,690</u>	<u>\$ 42,587</u>	<u>\$ 29,148</u>	<u>\$ 10,813</u>	<u>\$ 10,119</u>

The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2009:

	Year ended September 30, 2009				
	Hedge Funds	Multi -Asset Class	Private Equity Funds	Venture Capital Funds	Trust Held by Others
Fair value of Level 3 assets at September 30, 2008	\$ 121,827	\$ 43,487	\$ 25,305	\$ 7,814	\$ 8,444
Realized losses	(3,078)	(1,515)	(1,133)	(362)	-
Net unrealized gains (losses)	7,045	(1,504)	(6,026)	(715)	217
Proceeds from sales, redemptions and distributions	(16,860)	-	(431)	(123)	-
Purchase of investments	-	-	4,312	1,931	-
Fair value of Level 3 assets at September 30, 2009	<u>\$ 108,934</u>	<u>\$ 40,468</u>	<u>\$ 22,027</u>	<u>\$ 8,545</u>	<u>\$ 8,661</u>

Realized and unrealized gains/(losses) for level 3 assets included in changes in net assets for the years ended September 30, 2010 and 2009 are reported as follows:

	2010	2009
Total gains (losses)	<u>\$ 15,987</u>	<u>\$ (7,070)</u>
Change in unrealized gains (losses) relating to assets still held at reporting date	<u>\$ 14,825</u>	<u>\$ (983)</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2010:

		Fair Value	Commitments	Redemption Frequency	Redemption Notice Period
Public equity funds	(a)	\$ 204,440	\$ -	No limitation	30 – 120 days
Hedge funds	(b)	112,690	-	Annually	60 – 365 days
Multi-asset class fund	(c)	42,587	-	Annually	365 days
Private equity funds	(d)	29,148	31,362	n/a	n/a
Venture capital funds	(e)	10,813	7,332	n/a	n/a
Trust held by others		10,119	-	n/a	n/a
		<u>\$ 409,797</u>	<u>\$ 38,694</u>		

The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2009:

		Fair Value	Commitments	Redemption Frequency	Redemption Notice Period
Public equity funds	(a)	\$ 192,997	\$ -	No limitation	30 – 120 days
Hedge funds	(b)	108,934	-	Annually	60 – 365 days
Multi-asset class fund	(c)	40,468	-	Annually	365 days
Private equity funds	(d)	22,027	37,030	n/a	n/a
Venture capital funds	(e)	8,545	9,221	n/a	n/a
Trust held by others		8,661	-	n/a	n/a
		<u>\$ 381,632</u>	<u>\$ 46,251</u>		

- (a) Public equity funds consist of investments in limited liability partnerships and limited liability corporations that invest in publicly traded stocks of domestic and international companies.
- (b) Hedge funds includes investments in hedge funds, one of which (representing 55% of this category) invests both long and short primarily in U.S. and international common stocks, and the other (representing 45% of this category) pursues multiple strategies to diversify risks and reduce volatility.
- (c) Multi-asset fund is invested in all asset classes, including publicly traded U.S. and international stocks, fixed income, cash equivalents, private equity, venture capital, hedge funds, real estate, and natural resources.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

- (d) Private equity funds includes funds that invest directly in private U.S. and international companies or conduct buyouts of public companies resulting in the delisting of public equity, as well as two funds which invest in U.S. and international real estate. These assets are invested through limited partnerships which have stated terms of typically 8-12 years. The remaining terms of the Gallery's private equity investments range from three to seven years. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund.
- (e) Venture capital funds include several funds that invest in early stage, high-potential, growth start-up U.S. and international companies. These assets are invested through limited partnerships which have stated terms of typically 8-12 years. The remaining terms of the Gallery's venture capital investments range from three to seven years. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund.

20. Subsequent Events

The Gallery has performed an evaluation of subsequent events through November 15, 2010, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2010.